



County of Los Angeles  
**CHIEF ADMINISTRATIVE OFFICE**

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DAVID E. JANSSEN  
Chief Administrative Officer

April 23, 2004

Board of Supervisors  
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First District

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To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

**LIVING WAGE ORDINANCE**

On March 16, 2004, your Board instructed the Chief Administrative Office (CAO) and County Counsel to report back to the Board regarding the comments by Triana Siltan, Vice President of Service Employees International Union (SEIU), Local 1877 during public comment. Specifically, your Board requested a report on the following issues:

- An analysis of options, including those presented by Ms. Siltan, for amending the living wage rate if appropriate.
- An analysis of the additional contract costs that the County has incurred as a result of implementation of the Living Wage Ordinance.

Your Board additionally instructed County Counsel to report back on: 1) the legality of tying the amount of the living wage to some percentage of negotiated County union wages; and 2) whether or not the Living Wage Ordinance includes a cost of living adjustment and, if not, if such an adjustment could be added to the Ordinance. County Counsel has reported to your Board under separate cover on these issues.

The CAO convened a work group consisting of the following departments to assist in responding to your Board's instruction: Office of Affirmative Action Compliance (OAAC), Auditor-Controller (A-C), County Counsel, Internal Services Department (ISD) and the Department of Health Services (DHS). We wish to acknowledge and thank these departments for their participation.

As further outlined below, the work group's findings and recommendations can be summarized as follows:

- In the event your Board determines that it is appropriate to increase the living wage rate, it should be based on an updated calculation of the methodology used by the A-C to develop the original County living wage rate in 1999. Your Board may also wish to instruct the A-C to update these calculations annually for your Board's consideration.
- We are unable at this time to centrally develop a reliable estimate of either the increased contracting cost incurred by the County due to implementation of the living wage, or the estimated cost of a prospective increase in the living wage rate. However, by separate memorandum, we are requesting all departments to complete a survey on current Proposition A/Living Wage contracts and return it to this office by May 19, 2004.

While the results of this survey will not allow us to identify historical costs, which we believe would be too time-consuming and infeasible to reconstruct in any degree of accuracy, it should allow us to identify the current total annual value of all Living Wage contracts and allow us to develop reasonably reliable estimates of any proposed increase in the rate.

- In the long-term, we believe the County should migrate towards a single contracts database rather than the multiple systems which exist now and which were created for different objectives, not including tracking Living Wage contracts. We will be surveying County departments as well as your Board offices as to the essential requirements of such a system, which would include improved information regarding the cost of living wage contracts.

We should stress that, should your Board make a determination to enact an increase in the living wage rate, the increase would apply prospectively to new Proposition A and/or cafeteria contracts executed after the effectuation of the increase. We understand that DHS is close to completing a lengthy procurement process for housekeeping services with recommendations to your Board for new contracts targeted prior to June 2004. County Counsel advises that, should these contracts be approved prior to the effective date of a change in the living wage rate, the increase could only apply to extensions of these contracts, which will be recommended for an initial term of five years. On the other hand, imposing an increased labor cost on those contracts at this point in the process would likely delay or impair the competitive process undertaken by DHS.

## **Living Wage Options**

The work group examined the following three options to consider potential changes to the living wage rate specified in the Living Wage Ordinance:

1. Adoption of a revised Living Wage Ordinance, modeled after State Government Code Section 19134 as enacted in 2003 and effective July 1, 2003, which provides that personal service contracts for "persons providing janitorial and housekeeping services, custodians, food service workers, laundry workers, window cleaners, and security guard services shall include provision for employee wages and benefits that are valued at least 85 percent of the State employer cost of wages and benefits provided to state employees for performing similar duties."
2. Negotiation of a contract, similar to the five-year janitorial maintenance contract negotiated by private sector building owners and contractors in Los Angeles on May 1, 2003 with the SEIU Local 1877 which provides for annual wage and benefit increases.
3. Amend the Living Wage Ordinance to provide an updated living wage rate utilizing the same formula employed to determine the existing County-adopted living wage. This formula considers the minimum gross earnings a participant (supporting a household of two adults and one child) would need to earn to become ineligible for cash assistance under the CalWORKs program, and adds health benefits of the lowest cost HMO provider based on a survey of five HMOs. As an alternative, another formula for determining the amount of the living wage, such as the "Basic Needs Budget" approach developed by the CAO/Service Integration Branch, could be substituted.

A further discussion of these options is provided in Attachment I.

### *Recommendation*

Upon completion of the estimated cost survey by County departments, if your Board determines that it is appropriate to increase the living wage, it is the work group's recommendation that the current Board-approved methodology for computing the living wage be used as it is the most relevant to the purpose of the living wage. This would be effectuated by an amendment to the Living Wage Ordinance. Furthermore, as a matter of policy rather than part of the Ordinance, it is recommended that your Board consider instructing the A-C to provide an annual review and update of the living wage calculation for consideration by your Board.

Using the current Living Wage Ordinance formula, the increase in the living wage would be as follows:

Description	Current Hourly Rate	Proposed Hourly Rate	Variance	Percentage Change
Hourly rate with insurance provided by contractor	\$8.32	\$9.43	\$1.11	13.34%
Cost of health insurance	\$1.14	\$1.15	\$0.01*	0.88%
Hourly rate without insurance provided by the contractor	\$9.46	\$10.58	\$1.12	11.84%

\* The nominal increase in the HMO insurance rate can be attributed to changes in the HMO coverage including higher deductibles and co-payments. For example, the HMO used in 1999 did not require the member to pay a co-payment and only charged the member \$15 per physician visit. The HMO used in estimating the revised living wage rate requires the member to pay a \$50 co-payment and \$50 per physician visit.

In recommending that your Board utilize the A-C's methodology if you determine to increase the living wage, the workgroup's research found that the percentage increase of 11.84 is very close to the Consumer Price Index increase over the same period (1999 to 2004) of 12.6 percent.

For reasons further outlined below, we are not able to centrally estimate at this time the projected County cost which would result from an increase in the living wage as set forth above, but based on information provided by departments in response to the survey, we should be able to develop a reasonably reliable estimate.

### **Contract Cost Increases Associated with the Living Wage**

#### **Historical Costs**

In an April 20, 2000 memorandum to your Board (Attachment II), we reported that we do not have the ability to accurately calculate the contract cost increases associated with the living wage. If an effort were undertaken to identify the general magnitude of changes in contract costs as a result of living wage implementation, it would be a "guesstimate" based upon a simplistic but time-consuming approach, and would not account for scope of work changes that may increase or decrease the number of contract employees subject to the living wage. Specifically, to provide a guesstimate of

the cost impact of living wage implementation, each County department that has Proposition A and/or cafeteria services contracts, dating from the inception of the living wage program in 1999, would have to review each contract subject to the living wage in 1999 (or subsequent years as the contracts came up for renewal and the living wage became effective), to determine the number of full-time equivalent positions identified in the contracts, assume that they were paid the minimum wage in effect at the time of the contract award, and compare the amount that those full-time equivalent positions would have been paid at minimum wage to what they are paid under the current living wage.

Similarly, we have been advised that there is no reliable manner in which to estimate the offsetting savings enjoyed by the County health system due to County contractors providing health insurance (or a wage allowing purchase of health insurance) for their employees.

However, based upon departmental responses to the survey referenced above, we will be able to provide your Board with a total annualized amount of all current Proposition A/Living Wage contracts (projected for 2004-05), and develop an estimate of a prospective increase in the living wage rate, as discussed below.

#### Costs Attributed to an Increase in the Living Wage Rate

The same factors that limit our ability to estimate historical living wage cost impacts prevent us from centrally estimating the cost impact of an increase in the living wage at this time. The County's two main contract databases (Countywide Contract Monitoring System [CCMS] and Contract Data Base [CDB]) lack the functionality to provide this estimate. CCMS includes contract cost information, but does not track information on salary paid to contractor staff, nor does it distinguish between Proposition A and non-Proposition A contracts, and CDB lacks cost information for most contracts. It is important to point out that neither of these databases was created for this purpose.

In order to provide an estimate of the contract cost impact of an increase in the living wage rate, the work group discussed several models, but determined that the complexity of the program and lack of existing central information limited our ability to develop such an estimate. Therefore, we will be issuing a survey to County departments which should enable us to develop general estimates of the impact of prospective living wage rate increases. We should caution that this approach will still reflect certain limitations and caveats, including the following:

- Proposition A and/or cafeteria contracts have various terms and the projected increased costs would occur over a period of years rather than all at once; and

- The impacts of the competitive bidding process cannot be estimated.

Finally, the offsetting savings in the County's health systems will still not be able to be determined. It cannot be estimated how many contract employees would have used the County's health system were it not for employer-provided health coverage or to what extent they would have utilized these services. Privacy restrictions also limit our ability gather information to make such estimates.

#### Illustrative Example of Living Wage Program Costs

As an initial example, ISD has estimated the annual cost impact to its current custodial and landscaping living wage contracts based on the current minimum wage of \$6.75 versus the current living wage rate of \$9.46, as well as the annual impact should the current living wage be increased to \$10.58 based on the A-C's updated hourly rate. As further detailed on Attachment III, ISD estimates that these contracts reflect an increased cost of 15.16 percent due to the Living Wage Program as compared to minimum wage. Further, ISD estimates that an increase in the living wage rate using the A-C's calculation would increase the cost of these same contracts by 6.27 percent. Note that this increase is calculated on total contract cost, rather than salary costs alone.

As noted above, we cannot estimate the offsetting health system savings of either of these increases. Further, the impact of an increase in the rate would occur gradually and could be reduced by the competitive solicitation process.

#### Prospective Systems Enhancements

For the future, system enhancements, including possible modifications to CCMS and/or CDB, and/or integration with the recently Board-adopted eCAPS system may offer longer-term improvements in more accurately identifying the cost of Proposition A contracts, although it will still not be feasible to estimate the offsetting health system savings via a systems solution as discussed above.

We will be querying County departments and your Board offices to determine what standard information and data should be included in a centralized contract data base for the County. The system should be structured to enable additional fields of information to be added in the future as information needs evolve. Issues such as which department would manage the system, how information would be input, and the appropriate level of detail, balancing information desired and administrative complexity/cost would need to be examined.

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Subsequent planning and implementation would need to recognize the priority of implementing the first phase of the recently-adopted eCAPS system (financials) by July of 2005. We will keep your Board advised of our progress in developing such a system or system modification.

If you have any questions regarding this report, please contact me, or your staff may contact Lari Sheehan of this office at (213) 974-1174.

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MKZ:DP:nl

Attachments

## **Living Wage Adjustment Options**

### State Law Public Contracts Model

Effective July 1, 2003, amendments to Government Code Section 19134 became effective relating to public contracts that exceed 90 days

The law provides that:

- Personal services contracts entered into by a State agency for the provision of services including: janitorial and housekeeping, custodial, food service, laundry, window cleaning, and security shall include provisions for employee wages and benefits that are valued at least 85 percent of State costs of wages and benefits provided to State employees performing similar duties.
- “Benefits” include: health, dental, retirement, vision, holiday, sick and vacation pay.
- Holiday pay shall be provided on any State holiday that the State facility in which the services are being provided is closed.
- The State Department of Personnel Administration (DPA) shall establish annually the State employer wage and benefit costs for workers covered by this section, (yet to be determined).
- Benefit costs may be based on single employee, employee plus one dependent, and employee plus two or more dependents, or the costs may be based on a blended rate subject to determination by the DPA.
- In lieu of providing actual benefits, contractors may provide a cash payment equal to the wage and benefit costs established by DPA.
- The Department of General Services and DPA may adopt guidelines and regulations to implement the requirements of Section 19134.

### *Recommendation*

We do not recommend this approach for the County as it provides for extensive benefits beyond health care benefits which your Board originally intended to ensure when you enacted the Living Wage Ordinance in 1999. As a result, this approach would add substantially higher costs for contractual Proposition A services at a time when the County’s fiscal situation is seriously strained due to current and proposed actions by the



State of California.

Further, this approach would add significant administrative complexity to the program, further increasing County costs, by requiring that separate estimates, analyses and tracking be performed for each type of Proposition A service type (e.g., custodial, landscaping, security guards, etc.).

#### Maintenance Contractor's Agreement Model

Building owners and contractors negotiated a five-year janitorial contract with the Service Employees International Union (SEIU) Local 1877 that is in effect from May 1, 2003 through April 30, 2008. The contract stipulates a myriad of conditions including payment of health care, vacation, holiday and sick leave benefits, payment and maintenance of membership initiation and dues, no strike/no lockout, management rights, unemployment insurance and worker's compensation, working conditions and job expense, jury duty, seniority discharge and severance pay, grievance and arbitration procedure including expedited arbitration procedures, and check-off for political contributions.

#### *Recommendation*

The opinion of County Counsel and CAO/Employee Relations is that this type of negotiated agreement with a Union representing non-County employees is inappropriate and of questionable legality, and should not be considered as an option by your Board.

#### Auditor-Controller (A-C) Model

Utilizing the same approach that the Board adopted in 1999, the A-C calculated the minimum gross earnings a participant would need to earn supporting a household of three (two adults and one child) to become ineligible for cash assistance under the CalWORKs program as of June 2003. Based on gross earnings of \$1,634, and monthly work hours of 173.3 (40 hours per week x 52 weeks/12), the hourly rate was calculated at \$9.43.

The A-C then examined insurance costs of five HMO plans including Kaiser Permanente Personal Advantage (KPA), Blue Shield, Blue Cross, Pacific Care, Universal Care and HealthNet. Based on the most recent Los Angeles County Health Survey (1997) estimating the number of uninsured adults, the Auditor estimated costs by age group and appropriate HMO rates, developing an average weighted rate. The rates were adjusted to add the monthly insurance cost for children eligible for the Healthy Families Program at \$4.00 per child. The result was that KPA had the lowest

rates for similar services adding \$1.15 to the hourly rate.

#### Urban Research Model (CAO Services Integration Branch)

This model is based on a living wage enabling an earner to purchase goods that adequately satisfies basic subsistence needs without public assistance. The methodology employed is based on a 40-hour work week with an hourly rate that computes monthly costs for food, housing and utilities, transportation, medical out-of-pocket expenditures, health insurance, and household, clothing and miscellaneous items. The model also considers expenditures for state, federal and social security taxes. The results are as follows:

- A living wage for an individual earner who uses public transportation and has employer-provided health insurance would be \$9.89 per hour in 2004, up from \$8.32 in 1999.
- A living wage for an individual earner who uses public transportation but does not have employer-provided health insurance would be \$11.27 per hour in 2004, up from \$9.46 in 1999.
- A living wage for an individual earner who uses a private automobile and has employer-provided health insurance is 11.52 per hour in 2004. This wage was not estimated in the 1999 living wage estimates.
- A living wage for an individual earner who uses a private automobile but does not have employer-provided health insurance is \$12.90 per hour in 2004. This wage was not estimated in the 1999 living wage estimates.

#### *Recommendation*

The Urban Research model provides for a slightly higher hourly living wage when compared to the A-C model due to the provision of a higher level of basic needs and because a health insurance average was applied rather than the lowest HMO premium. The County is facing severe budgetary constraints in the upcoming fiscal year, and we believe that the A-C's calculation is the most relevant to the purpose of the living wage and provides a consistent approach in calculating the rate.

Therefore, we recommend utilizing the A-C Model should your Board determine that an increase in the living wage rate is warranted. An increase would be accomplished via an amendment to the Living Wage Ordinance. As a matter of policy, rather than inclusion in the Ordinance, it is further recommended that the A-C update this living wage calculation for Board consideration on an annual basis.



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April 27, 2000

To: Supervisor Gloria Molina, Chair  
Supervisor Michael D. Antonovich, Chair Pro Tem  
Supervisor Yvonne Brathwaite Burke  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe

From: David E. Janssen  
Chief Administrative Officer

**LIVING WAGE PROGRAM IMPLEMENTATION STATUS REPORT**

On June 15, 1999, the Board of Supervisors instructed the Chief Administrative Officer, Affirmative Action Compliance Officer (OAAC), the Director of Personnel and the Director of Internal Services (ISD) to develop a detailed implementation plan for the County's Living Wage Ordinance to ensure: 1) a compliance strategy; 2) an initial six-month review; 3) annual reporting to the Board on issues, problems and recommendations; and 4) training of County personnel. The implementation plan was approved by the Board on September 7, 1999, and training of departmental contracting staff was completed on October 13, 1999. This memorandum and the attachments provide the requested initial six-month implementation review.

The past six months have been a learning period for both departmental staff and contractors; however, we believe implementation of the Living Wage Program (LWP) has been largely successful. Additional training and experience with the program will benefit both departmental staff and contractors. In this regard, ISD and OAAC are currently scheduling and conducting training sessions with individual departments. **By copy of this memorandum, I am reemphasizing to all department heads that OAAC shall be advised of all bidders/proposers conferences for living wage contracts for the purpose of reviewing LWP compliance requirements with potential bidders/proposers.** As an additional aid to both departmental staff and contractors, OAAC is currently developing an LWP Frequently Asked Questions (FAQ) handout for distribution at bidders/proposers conferences and contractor pre-job conferences.

### **Living Wage Contract Awards**

Attachment I was prepared by Auditor-Controller staff. It provides data on the 14 Proposition A contracts awarded since the effective date of the LWP through April 1, 2000, and five pending contracts that departments have not yet submitted to the Board.

According to the Auditor-Controller, the table only shows the difference in cost from the previous contracts, which may include cost-of-living as well as wage increases. The difference does not necessarily reflect cost increases that are solely the result of the living wage increase. As shown, the individual contract increases vary significantly, ranging from a negative three percent to 141 percent. As shown in the table, the average cost increase was 21 percent for the 14 awarded contracts and 17 percent including the pending contracts. The wide variance in the contract cost increases may reflect more accurate pricing by the contractor and/or changes in the scope of work. For example, the contract showing a 141 percent increase was previously a relatively low-cost contract that was apparently substantially under bid as the contractor was experiencing difficulty providing all the required services. When the contract ended, the services were resolicited. The new contract price more accurately reflects the cost of providing the required services.

The Auditor-Controller further reports that all but three of the 19 contractors (Numbers 3, 6, and 15) have opted to pay the higher hourly wage of \$9.46 without healthcare benefits rather than paying the lower hourly wage of \$8.32 with healthcare benefits of at least \$1.14 per hour. The 16<sup>th</sup> numbered contract met an exemption to LWP requirements based on small business status.

### **Role of the Office of Affirmative Action Compliance**

The Board approved the allocation of three positions to OAAC in 1999-2000 to assist departments with implementing the LWP and monitoring compliance. Two positions have been filled commensurate with the current workload. The selection process has been completed for the third position which will be filled effective May 16, 2000. The duties of these staff include:

- ☐ Conducting LWP training workshops with departmental contract staff to assist them in interpreting requirements at each phase of the contracting process;
- ☐ Participating in bidders/proposers conferences for living wage contracts to provide information on LWP provisions and compliance requirements;
- ☐ Conducting pre-job meetings with the selected contractor and departmental contracting staff to provide guidance to assist in compliance with the LWP;

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- ☐ Conducting on-site visits to verify that contract employees have been informed about LWP provisions and that employee wages and benefits are accurately reflected in the contractor's payroll records;
- ☐ Reviewing information from departments and contractors to determine completeness, accuracy and timeliness of LWP documentation;
- ☐ Notifying departments of contractor non-compliance and recommending remedies; and
- ☐ Responding to LWP hotline calls and investigating LWP violations.

To date, neither the contracting departments nor OAAC have identified any instances of LWP non-compliance/violations. Attachment II includes a further discussion of a variety of LWP issues.

If you have any questions, please let me know, or your staff may contact Nan Flette of this office at (213) 974-1168, Pat Joyce of ISD at (323) 267-2109, or Marjorie Smith of OAAC at (213) 974-1027.

DEJ:MKZ  
NF:bjs

Attachments

c: All Department Heads

# LIVING WAGE CONTRACT AWARDS THROUGH APRIL 1, 2000

Contracts Approved Under the Living Wage Ordinance - Cost Comparison						
Dept.	Description	Living Wage Contract Effective	Living Wage Contract Cost	Old Contract Cost	Cost Increase	Percent Increase (a)
<b>Contracts Approved by Board:</b>						
1 Beaches	Landscaping	3/14/00	\$ 262,212	\$ 173,395	\$ 88,817	51%
2 Beaches	Tree Trimming	3/14/00	97,200	79,529	17,671	22%
3 DCFS	Armed/Unarmed Security (b)	2/14/00	952,056	923,874	28,182	3%
4 DPW	Unarmed Security	2/1/00	411,555	378,564	32,991	9%
5 DPW	Armed Security	2/1/00	556,484	503,798	52,686	10%
6 DPW	Custodial (b)	11/8/99	698,790	515,724	183,066	35%
7 Prob.	Custodial Cluster #3	1/18/00	178,200	74,020	104,180	141%
8 Prob.	Custodial Cluster #1	1/18/00	84,900	51,504	33,396	65%
9 Prob.	Clerical-Field Offices	12/28/99	1,361,110	1,187,447	173,663	15%
10 Prob.	Clerical-Los Padrinos JH	9/23/99	424,994	254,327	170,667	67%
11 Prob.	Clerical-Nidorf JH	12/28/99	408,819	370,155	38,664	10%
12 Pub Lib.	Custodial	3/1/00	163,944	133,535	30,409	23%
<b>Subtotal</b>			<b>\$ 5,600,264</b>	<b>\$ 4,645,872</b>	<b>\$ 954,392</b>	<b>21%</b>
<b>Contracts Approved by the Board - New Services (no prior contract; not included in % increase):</b>						
13 ISD	Parking Services/Airport Court	2/1/00	\$ 126,216			
14 DPW	Shuttle Service-East LA	6/5/00	498,648			
<b>Subtotal</b>			<b>\$ 624,864</b>			
<b>Contracts Reviewed by the Auditor-Controller and in Process:</b>						
15 DCFS	Custodial (b)	5/1/00	\$ 253,272	\$ 161,405	91,867	57%
16 DCFS	Landscaping (c)	6/1/00	46,824	46,824	0	0%
17 Prob.	Custodial-Cluster #2	in process	94,784	97,704	(2,920)	-3%
18 Prob.	Food Service-Los Padrinos JH	in process	1,718,545	1,455,551	262,994	18%
19 Prob.	Food Service-Challenger	in process	1,981,349	1,851,227	130,122	7%
<b>Subtotal</b>			<b>\$ 4,094,774</b>	<b>\$ 3,612,711</b>	<b>\$ 482,063</b>	<b>13%</b>
<b>TOTAL</b>			<b>\$ 9,695,038</b>	<b>\$ 8,258,583</b>	<b>\$ 1,436,455</b>	<b>17%</b>

(a) The percentage increase from minimum wage of \$5.75/hour to the higher living wage of \$9.46/hour is a 64.5% increase.

(b) Contractor pays \$8.32/hour plus healthcare benefits. All others pay the higher living wage of \$9.46/hour.

(c) Contractor met exception from paying living wage due to small business status (employs part-time workers).

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## SIX-MONTH STATUS REPORT ON IMPLEMENTATION OF THE LIVING WAGE

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This report includes a discussion of the following Living Wage Program (LWP) implementation issues: 1) training; 2) compliance monitoring; 3) healthcare benefits; 4) full-time vs. part-time employees; 5) evaluation of bidders'/proposers' performance history; 6) small business/nonprofit entities exceptions; and 7) cafeteria services; and 8) successor contractors.

### 1. Training

The need for additional training for departmental contracting staff and contractors has been identified.

- ☐ Internal Services Department (ISD) and Office of Affirmative Action Compliance (OAAC) are currently scheduling training with all departments on an individual departmental basis. Other training efforts will focus on the Administrative Deputies and Contract Managers Network. Also, LWP requirements and Proposition A contracting are discussed in Management Academy presentations.
- ☐ To assist potential contractors in improving their understanding of the compliance requirements, we will reemphasize to County departments that OAAC must be invited to all bidders/proposers conferences for living wage contracts to review LWP compliance issues.
- ☐ The Auditor-Controller has also identified the need for additional departmental training in Proposition A cost comparison analysis and has targeted training between July and September 2000.

### 2. Compliance Monitoring

OAAC and ISD are assisting departments with implementing the LWP and monitoring contractor compliance and will continue to provide training workshops for departmental contracting staff to assist them in interpreting LWP requirements at each phase of the contracting process.

- ☐ OAAC monitoring responsibilities have included reviewing information from departments (e.g., Requests for Proposals, staff plans, forms and evaluation criteria) to determine completeness, accuracy and timeliness of LWP documentation.

- ☐ OAAC has participated in 13 bidders/proposers conferences and provided an overall review of LWP requirements. In addition, OAAC has held eight pre-job meetings with the selected prime contractors, sub-contractors and departmental contract staff to provide guidance to assist in compliance with the LWP.
- ☐ OAAC is responsible for conducting annual on-site visits for each LWP contract. At on-site visits conducted since LWP implementation, OAAC has inspected departmental compliance records and conducted interviews with contract employees to verify that employees have been informed about LWP, that LWP information is conspicuously posted and that employee wages and benefits are accurately reflected in the contractor's payroll records.
- ☐ OAAC continues to respond to LWP hotline telephone calls. Callers have been seeking information about the LWP and how it affects their wages. There have been no complaints of LWP violations or abuses.

To date, OAAC and departments have identified only minor infractions (e.g., incomplete documentation, misunderstanding of directions) and have identified no instances of LWP non-compliance/violations. This suggests generally successful LWP implementation.

### **3. Healthcare Benefits**

Some contractors have indicated difficulty in expending \$1.14 per hour per employee for healthcare benefits when the contract employee is single. The difficulty arises because the \$1.14 per hour amount is the amount the Auditor-Controller determined would be sufficient to provide medical coverage for two adults and one child through the California Healthy Families program. We understand that bona fide healthcare programs are available for less than \$1.14 per hour for single persons. The implementation instructions currently indicate that employer payment for vision and dental benefits may be applied to the \$1.14 per hour payment for the healthcare benefit. The implementation instructions will be clarified to indicate that employer contributions to mental health and prescription drug coverage may also be applied to the \$1.14 per hour requirement. Further, if an employer pays for short term and/or long term disability benefits for an employee, those payments may likewise be applied to the \$1.14 per hour requirement.



Departments have reported to OAAC that, in some instances, contractors who currently provide healthcare benefits that do not amount to \$1.14 per hour are nonetheless paying their employees \$9.46 per hour and continuing to provide healthcare benefits. However, generally, contractors have chosen to pay the higher hourly wage of \$9.46 without healthcare benefits instead of paying \$8.32 per hour and \$1.14 towards healthcare benefits for the stated reason that the paperwork is less burdensome.

Contractors' selection of the option to pay the higher hourly wage may not increase the number of County contract employees receiving healthcare benefits, which is a goal of the LWP. At bidders/proposers conferences, the benefits of providing healthcare will continue to be stressed. Contractors who choose not to provide healthcare will be encouraged to discuss healthcare benefits with their employees and explain that the higher living wage of \$9.46 per hour includes \$1.14 per hour to enable employees to purchase healthcare benefits on their own. Contractors paying \$9.46 per hour without healthcare benefits will also be encouraged to offer assistance, as requested, to help employees locate a healthcare plan. The standard "*Notice To All Employees Working On County Contracts*" and poster will be modified to add emphasis on purchasing healthcare benefits (Attachment III).

#### **4. Full-Time vs. Part-Time Employees**

The LWP requires that contractors staff County contracts using full-time employees, unless the use of part-time employees is necessary and approved by the department. Making this determination has presented some problems for both departmental contracting staff and contractors. Training in this area will focus on the importance of accurately "sizing" departmental projects to determine which jobs truly require only part-time staff. In addition, the implementation instructions will clarify that any bidder/proposer who proposes the use of part-time staff shall provide written justification for the staffing plan.

#### **5. Evaluation of Bidders'/Proposers' Performance History**

As identified in the implementation plan, evaluating past labor/payroll violations and performance history of the bidders/proposers is an important part of the RFP process. The current allocation of 20 percent of the total RFP evaluation points to this rating category is appropriate in conjunction with the following clarifications:

- ☐ The implementation instructions in the Living Wage Training Manual will be revised to focus less on references provided by the contractor. Instead, it will explicitly require bidders/proposers to provide:

- 1) A list of all public entities for which the bidder/proposer has provided service within the past three years;
- 2) A statement affirming no labor/payroll violations in the past three years; or, specific information about all labor/payroll violations in the past three years;
- 3) A statement affirming no allegations by a public entity of bidder/proposer false claims; or, specific information about all allegations of false claims.

The contracting department will contact a number of the previous public entity employer(s) as part of the evaluation process.

- ☐ The instructions will be clarified to indicate that the bidders/proposers score in this RFP evaluation category shall be reduced in the event of a confirmed labor/payroll violation and/or false claim in proportion to the gravity and extent of the violation and/or claim.
- ☐ ISD has developed a Living Wage Ordinance Departmental Check List to ensure all LWP requirements have been addressed before recommending approval of a contract subject to the LWP. The Checklist will be modified to incorporate the above program clarifications related to evaluation of references, labor/payroll violation information and performance history.

#### **6. Small Business/Nonprofit Entities Exceptions**

It has been reported that some-medium sized and large firms have expressed concern at bidders/proposers conferences about their inability to compete with small businesses and nonprofit firms that meet exceptions to the LWP. However, the results of the contract award process have not supported this concern. Of the 19 LWP contracts reviewed by the Auditor-Controller to date, only one contract award recommendation has met the small business exception and none have met the nonprofit exception.

## **7. Cafeteria Services**

The Department of Public Works (DPW) has encountered difficulty in rebidding the operation of the cafeteria at the Alhambra headquarters. After a solicitation process, the three potentially acceptable providers stated they could not pay the living wage because doing so would place them at a pricing disadvantage with the many food establishments in the surrounding area. DPW did not recommend the award of a contract to the Board and is currently operating month-to-month with the existing contractor. On March 29, 2000, DPW notified the Board of its intent to resolicit the service allowing, as an option, a DPW contribution to keep the cafeteria food prices competitive.

Depending on the outcome of the solicitation, this is an area of potential concern for cafeteria service contracts. Prior to the LWP requirements, cafeteria service contracts have been revenue generating or revenue neutral.

## **8. Successor Contractors**

The Living Wage Ordinance requires that if the County terminates a contract prior to its expiration, a subsequent employer for such services shall provide for the employment of the predecessor employer's "eligible" employees, as defined in the Ordinance. Recently, the Board acted to terminate a custodial contract early and immediately due to Auditor-Controller findings of serious payroll/labor violations, including unauthorized subcontracting and the absence of employee payroll records to identify the contractor's "employees." A debarment hearing for this contractor has been scheduled on May 18, 2000.

In a concurrent action, the Board approved an interim contractor pending a resolicitation of the services under LWP requirements. The interim contractor was not required to provide for the employment of the terminated contractor's "eligible" employees because of the emergency and temporary nature of the interim contract and because eligibility could not be determined in view of the unauthorized contracting and the absence of payroll records. The turnover of 34 facilities was accomplished the day of the Board termination action. In spite of this, the interim contractor indicated a willingness to consider employment of the terminated contractor's employees. The department provided the interim contractor with notices, in multiple languages, of employment opportunities with the interim contractor at the various facilities and a number of those employees were hired. The LWP requirement regarding employee retention rights has been included in the new solicitation for these facilities. We will monitor this issue.

## Living Wage Analysis

### Current Living Wage v. Minimum Wage - Internal Services Department

Type of Contract	No. of Workers	Annual Cost at Current Minimum Wage of \$6.75 <sup>(1)</sup> <sup>(2)</sup>	Annual Cost at Current Living Wage of \$9.46 <sup>(1)</sup> <sup>(3)</sup>	Increase from Minimum Wage	Total Contract Cost <sup>(4)</sup>
Custodial					
Labor (Base)	278	3,903,120	5,470,150	1,567,030	
Payroll Taxes and Vacation <sup>(5)</sup>		565,952	793,172	227,219	
Total Custodial	278	4,469,072	6,263,322	1,794,250	12,000,000
Landscaping					
Labor (Base)	42	589,680	826,426	236,746	
Payroll Taxes and Vacation <sup>(5)</sup>		85,504	119,832	34,328	
Total Landscaping	42	675,184	946,257	271,074	1,620,000
Total Costs	320	5,144,256	7,209,580	2,065,324	13,620,000

#### Notes:

- (1) Annual costs are calculated assuming these workers are working full-time at Los Angeles County facilities for 40 hours per week and 52 weeks per year.
- (2) Based on informal surveys of contractors, contract employees would be paid minimum wage if the Living Wage Ordinance were not in place.
- (3) Assumes Living Wage of \$9.46 per hour.
- (4) Represents the total contract cost, including all non-labor related costs (e.g., supplies, etc.).
- (5) The ratios of the payroll related costs to the labor base are assumed to be the following: Payroll Taxes - 10%; Vacation - 4.5%.

## Living Wage Analysis

Current Living Wage v. Increased Rate - Internal Services Department

Type of Contract	Annual Contract Cost at Current Living Wage of \$9.46 <sup>(1)(2)</sup>	Annual Cost Increase at Proposed Living Wage of \$10.58	Revised Annual Contract Cost	% of Increase to Total Cost
Custodial	12,000,000	741,535	12,741,535	6.18%
Landscaping	1,620,000	112,030	1,732,030	6.92%
Total Costs	<u>13,620,000</u>	<u>853,565</u>	<u>14,473,565</u>	6.27%

## Notes:

- (1) Additional Contract Contingency amount is not included in the Total Contract Cost because FTEs are not including contingency.  
 (2) Assumes Living Wage of \$9.46 per hour